



Mary Taylor, CPA
Auditor of State

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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DARKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Franklin Monroe Local School District
Darke County
8369 Oakes Rd.
PO Box 78
Pitsburg, Ohio 45358

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, (the District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Monroe Local School District, Darke County, as of June 30, 2010 and 2009, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



Mary Taylor, CPA
Auditor of State

October 29, 2010

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2010 are as follows:

- Net assets of governmental activities decreased \$1,522,171 from fiscal year 2009.
- On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy.
- The School District has \$6,057,999 in outstanding general obligation bonds whose proceeds were used to cover the costs of the local share of school construction under the State of Ohio Classroom Facilities Assistance Program.
- The School District's had \$16,732,250 in cash disbursements, up \$9,736,408 from fiscal year 2009. Contributing to the increase in cash disbursements was the payment of principal in the amount of \$6,218,000 for general obligations notes and around \$3 million in capital outlay cash disbursements for the construction of the new building.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2010, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, the Bond Retirement Fund, the OSFC Locally Funded Initiative Fund, and the Classroom Facilities State Share Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2010 compared to fiscal year 2009 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2010	2009
Assets		
Equity in Pooled Cash and Cash Equivalents	\$15,003,637	\$16,525,808
Net Assets		
Restricted for:		
Capital Projects	12,226,304	7,498,731
Debt Service	152,733	6,440,587
Other Purposes	167,774	117,868
Bus Purchases		360
Unrestricted	2,456,826	2,468,262
Total Net Assets	\$15,003,637	\$16,525,808

As mentioned previously, net assets of governmental activities decreased \$1,522,171 during fiscal year 2010. Net assets for debt service decreased as the cash from the proceeds of the bonds were used to pay off the general obligation note for the school construction that was due. The School District approved a 6.43 mill property tax levy that will be used to pay off the new bonds. Collections on this levy began in fiscal year 2009. In addition, the voters approved a .5 mill capital maintenance levy that collections began in fiscal year 2009.

Income tax collections were down 11.5 percent from fiscal year 2009. Net assets for capital projects increased due to the construction project. Instruction expenditures have increased due in part to a 1.5 percent increase in salaries, debt issuance costs and capital outlay expenditures associated with the commencement of the school construction project. Unrestricted net assets decreased less than 1%.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2010 and 2009.

**(Table 2)
Changes in Net Assets**

	Governmental Activities	
	2010	2009
Receipts:		
Program Receipts:		
Charges for Services	\$ 1,590,050	\$ 1,530,170
Operating Grants and Contributions	693,543	350,461
Capital Grants and Contributions	7,717,157	1,356,352
Total Program Receipts	<u>10,000,750</u>	<u>3,236,983</u>
General Receipts:		
Property Taxes	1,561,626	1,341,163
Income Taxes	488,905	552,445
Grants and Entitlements Not Restricted to Specific Programs	3,107,778	3,258,769
Interest	31,621	46,118
General Obligation Notes and Bonds Issued (including premiums)		12,558,533
All Other Categories	19,399	8,287
Total General Receipts	<u>5,209,329</u>	<u>17,765,315</u>
Total Receipts	<u>15,210,079</u>	<u>21,002,298</u>
Disbursements:		
Instruction	3,942,832	3,667,150
Support Services:		
Pupils and Instructional Staff	781,967	786,846
Board of Education, Administration and Fiscal	774,316	762,234
Operation and Maintenance of Plant	447,661	491,502
Pupil Transportation	470,509	430,944
Central	142,869	86,575
Operation of Non-Instructional Services	188,605	192,707
Extracurricular Activities	194,050	242,703
Capital Outlay	3,084,903	212,647
Debt Service	6,704,538	122,534
Total Disbursements	<u>16,732,250</u>	<u>6,995,842</u>
Increase in Net Assets	(1,522,171)	14,006,456
Net Assets, Beginning of Year	<u>16,525,808</u>	<u>2,519,352</u>
Net Assets, Ending of Year	<u>\$15,003,637</u>	<u>\$16,525,808</u>

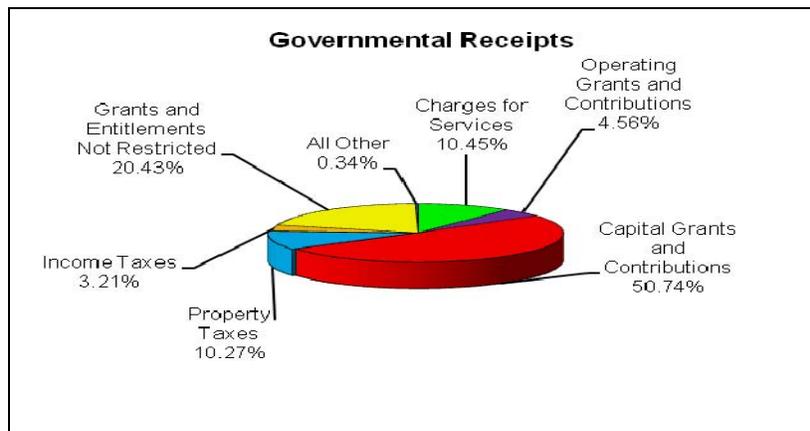
**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

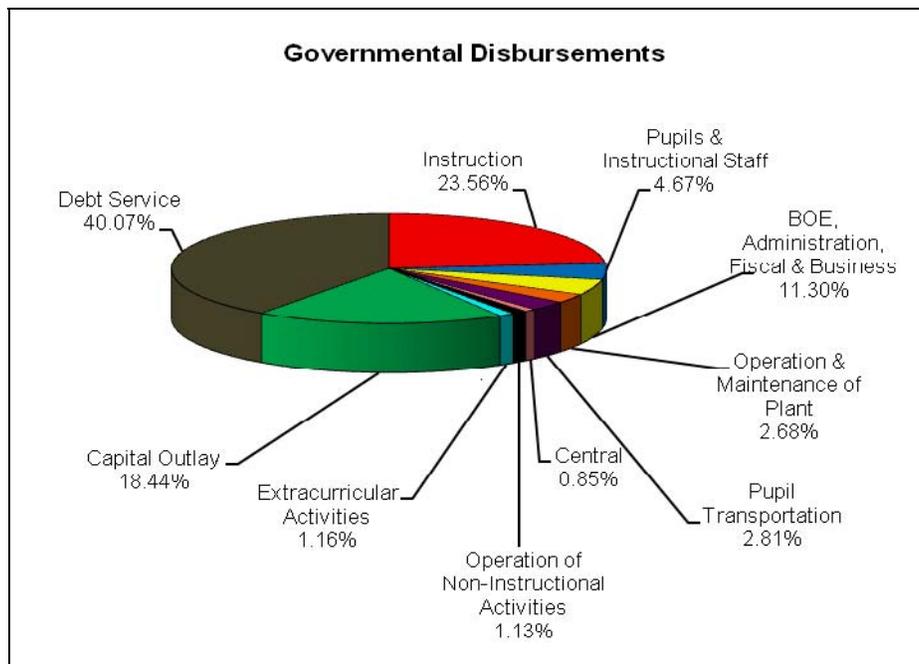
Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. In 2009, property taxes made up 6.39% of receipts while income taxes added an additional 2.63% of receipts. For 2010, these percentages haven risen to 10.27% for property taxes and 3.21% for income taxes. Grants and entitlements not restricted, typically the School District's largest source of receipts consists largely of state foundation monies.

With the receipt of the State of Ohio Classroom Facilities Assistance monies, for 2010 capital grants and contributions are the largest source of cash receipts for the School District.



A payment for debt service on the general obligation note comprises 40.07% of the School District's disbursements for 2010. In addition, capital outlay disbursements for the building of the new facilities made up 18.44%. Instruction comprises 23.56% of the School District's disbursements. Support services make up 15.64% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers.

These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2010	Net Cost of Services 2010	Total Cost Of Services 2009	Net Cost of Services 2009
Instruction	\$3,942,832	(\$2,528,578)	\$3,667,150	(\$2,368,646)
Support Services:				
Pupils and Instructional Staff	781,967	(570,953)	786,846	(655,007)
Board of Education, Administration and Fiscal	774,316	(587,107)	762,234	(762,234)
Operation and Maintenance of Plant	447,661	(437,334)	491,502	(481,167)
Pupil Transportation	470,509	(324,543)	430,944	(324,086)
Central	142,869	(133,296)	86,575	(75,575)
Operation of Non-Instructional Services	188,605	4,818	192,707	(4,632)
Extracurricular Activities	194,050	(82,223)	242,703	(97,551)
Capital Outlay	3,084,903	4,632,254	212,647	1,132,573
Debt Service	6,704,538	(6,704,538)	122,534	(122,534)
Total Expenses	\$16,732,250	(\$6,731,500)	\$6,995,842	(\$3,758,859)

The dependence upon state foundation, property and income tax receipts is critical as a large portion of governmental activities are supported through these general receipts. For fiscal year 2010, program revenues covered capital outlay expenditures. As the school construction project continues, this will reverse and the School District will have to cover its local portion from general receipts (property taxes).

The School District's Funds

Total governmental funds had receipts of \$15,210,079 and disbursements of \$16,732,250.

The fund balance of the General Fund decreased \$11,796. In addition, the General Fund transferred \$15,000 to the EMIS special revenue fund during fiscal year 2010.

The Bond Retirement Fund was established in fiscal year 2009 as a major fund. In July 2009, the bond proceeds were used to pay off the School District's general obligation notes which resulted in a decrease of \$6,287,853 to net assets.

The OSFC Locally Funded Initiative fund was established in fiscal year 2009 as a major fund. This fund's net assets continued to increase as the result of interest revenue earned on the debt proceeds that will be used for the school construction.

Finally, the Classroom Facilities State Share fund was established in fiscal year 2009 as a major fund. Like the OSFC Locally Funded Initiative Fund, net assets increased due to monies received from the State that is being used for the school construction.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2010, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. Increases in estimated receipts for property and income taxes and tuition and fees contributed to the increase in final budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$6,319,536 while actual disbursements were \$6,276,857. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The net change in fund balance showed a \$235,227 decrease for fiscal year 2010.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently keep track of its capital assets and infrastructure.

Debt

At June 30, 2008, the School District did not have any outstanding debt. At June 30, 2009, the School District had \$6,217,999 in general obligation bonds outstanding and \$6,218,000 in general obligation notes outstanding. The bond proceeds were used to pay off the note which matured July 24, 2009. The notes were issued to fund the costs of the \$4,218,195, the local share of school construction under the State of Ohio Classroom Facilities Assistance Program along with \$2,000,000 for the (LFI) Locally Funded Initiative Portion of the Project. At June 30, 2010, \$6,057,999 of the general obligation bonds was outstanding. See notes 9 and 10 for further information.

Current Issues

The challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases, shrinking funding. We rely heavily on local taxes and state funding.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,217,999, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,180 per year for 23 years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Debra VanCulin, Treasurer at P.O. Box 78, Pittsburg, OH 45358.

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$15,003,637</u>
Net Assets:	
Restricted for:	
Capital Projects	12,226,304
Debt Service	152,733
Other Purposes	167,774
Unrestricted	<u>2,456,826</u>
Total Net Assets	<u><u>\$15,003,637</u></u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$2,945,310	\$1,095,376	\$91,111		(\$1,758,823)
Special	778,372	173,113	30,565		(574,694)
Vocational	154,606		23,362		(131,244)
Student Intervention Services	56,685	727			(55,958)
Other	7,859				(7,859)
Support Services:					
Pupil	382,421	7,868	172,719		(201,834)
Instructional Staff	399,546		30,427		(369,119)
Board of Education	26,937				(26,937)
Administration	551,115		187,209		(363,906)
Fiscal	196,264				(196,264)
Operation and Maintenance of Plant	447,661	10,327			(437,334)
Pupil Transportation	470,509	76,134	69,832		(324,543)
Central	142,869		9,573		(133,296)
Operation of Non-Instructional Services	188,605	125,303	68,120		4,818
Extracurricular Activities	194,050	101,202	10,625		(82,223)
Capital Outlay	3,084,903			\$7,717,157	4,632,254
Debt Service:					
Principal Retirement	6,378,000				(6,378,000)
Interest and Fiscal Charges	326,538				(326,538)
Total Governmental Activities	<u>\$16,732,250</u>	<u>\$1,590,050</u>	<u>\$693,543</u>	<u>\$7,717,157</u>	<u>(6,731,500)</u>

General Receipts:

Property Taxes Levied for:

General Purposes	1,149,179
Capital Outlay	24,224
Debt Service	362,422
Capital Maintenance	25,801
Income Taxes Levied for General Purposes	488,905
Grants and Entitlements not Restricted to Specific Programs	3,107,778
Gifts and Donations not Restricted to Specific Programs	410
Interest	31,621
Miscellaneous	18,989
Total General Receipts	<u>5,209,329</u>
Change in Net Assets	(1,522,171)
Net Assets Beginning of Year	<u>16,525,808</u>
Net Assets End of Year	<u>\$15,003,637</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Bond Retirement	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$2,456,826	\$152,733	\$2,019,639	\$10,172,906	\$201,533	\$15,003,637
Liabilities						
Fund Balances:						
Reserved for Encumbrances	223,431		576,637	9,688,367	24,181	10,512,616
Unreserved, Undesignated Reported in:						
General Fund	2,233,395					2,233,395
Special Revenue Funds					145,093	145,093
Debt Service Fund		152,733				152,733
Capital Projects Funds			1,443,002	484,539	32,259	1,959,800
Total Fund Balances	<u>\$2,456,826</u>	<u>\$152,733</u>	<u>\$2,019,639</u>	<u>\$10,172,906</u>	<u>\$201,533</u>	<u>\$15,003,637</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	Bond Retirement	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Receipts:						
Property Taxes	\$1,149,179	\$362,422			\$50,025	\$1,561,626
Income Tax	488,905					488,905
Intergovernmental	3,057,128	59,505		7,679,274	657,532	11,453,439
Interest	12,978	1,572	16,891	37,883	180	69,504
Tuition and Fees	1,282,891					1,282,891
Rent	1,329					1,329
Extracurricular Activities	31,903				130,837	162,740
Contributions and Donations	410				27,097	27,507
Charges for Services	738				125,303	126,041
Miscellaneous	9,107				3,120	12,227
Total Receipts	6,034,568	423,499	16,891	7,717,157	994,094	15,186,209
Disbursements:						
Current:						
Instruction:						
Regular	2,795,283				150,027	2,945,310
Special	757,427				20,945	778,372
Vocational	154,606					154,606
Student Intervention Services	55,958				727	56,685
Other	7,859					7,859
Support Services:						
Pupil	201,834				180,587	382,421
Instructional Staff	369,118				30,428	399,546
Board of Education	26,937					26,937
Administration	363,906				187,209	551,115
Fiscal	185,568	8,622			2,074	196,264
Operation and Maintenance of Plant	432,906				14,755	447,661
Pupil Transportation	400,677				69,832	470,509
Central	119,942				22,927	142,869
Operation of Non-Instructional Services					188,605	188,605
Extracurricular Activities	116,905				77,145	194,050
Capital Outlay	64,500			3,020,403		3,084,903
Debt Service						
Principal Retirement		6,378,000				6,378,000
Interest and Fiscal Charges		326,538				326,538
Total Disbursements	6,053,426	6,713,160	16,891	3,020,403	945,261	16,732,250
Excess of Receipts Over (Under) Disbursements	(18,858)	(6,289,661)	16,891	4,696,754	48,833	(1,546,041)
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	22,062	1,808				23,870
Transfers In					15,000	15,000
Transfers Out	(15,000)					(15,000)
Total Other Financing Sources (Uses)	7,062	1,808			15,000	23,870
Net Change in Fund Balances	(11,796)	(6,287,853)	16,891	4,696,754	63,833	(1,522,171)
Fund Balances Beginning of Year	2,468,622	6,440,587	2,002,748	5,476,152	137,699	16,525,808
Fund Balances End of Year	\$2,456,826	\$152,734	\$2,019,639	\$10,172,906	\$201,532	\$15,003,637

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Receipts:				
Property Taxes	\$1,126,170	\$1,148,750	\$1,149,179	\$429
Income Tax	475,000	488,000	488,905	905
Intergovernmental	3,065,680	3,055,800	3,057,128	1,328
Interest	10,000	12,500	12,978	478
Tuition and Fees	1,204,045	1,282,000	1,282,891	891
Rent	1,300	1,300	1,329	29
Extracurricular Activities	35,000	31,000	31,903	903
Contributions and Donations		400	410	10
Charges for Services	282	732	738	6
Miscellaneous		9,100	9,107	7
Total Receipts	<u>5,917,477</u>	<u>6,029,582</u>	<u>6,034,568</u>	<u>4,986</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,729,656	2,811,156	2,810,550	606
Special	701,893	831,893	831,807	86
Vocational	187,707	162,707	156,010	6,697
Student Intervention Services	61,636	54,136	55,958	(1,822)
Other	17,705	17,705	8,714	8,991
Support Services:				
Pupil	242,942	219,442	219,175	267
Instructional Staff	452,718	382,718	378,317	4,401
Board of Education	34,293	34,343	34,319	24
Administration	565,371	377,371	376,463	908
Fiscal	182,381	199,381	198,147	1,234
Operation and Maintenance of Plant	509,285	473,285	467,086	6,199
Pupil Transportation	411,936	444,936	438,006	6,930
Central	58,668	121,168	120,900	268
Operation of Non-Instructional Services				0
Extracurricular Activities	140,795	124,795	116,905	7,890
Capital Outlay	64,500	64,500	64,500	
Total Disbursements	<u>6,361,486</u>	<u>6,319,536</u>	<u>6,276,857</u>	<u>42,679</u>
Excess of Receipts Over (Under) Disbursements	<u>(444,009)</u>	<u>(289,954)</u>	<u>(242,289)</u>	<u>47,665</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	24,741	21,741	22,062	321
Refund of Prior Year Receipts	(8,500)			
Advances In	8,000			
Advances Out	(8,000)			
Transfers Out	(15,000)	(15,000)	(15,000)	
Total Other Financing Sources (Uses)	<u>1,241</u>	<u>6,741</u>	<u>7,062</u>	<u>321</u>
Net Change in Fund Balance	(442,768)	(283,213)	(235,227)	47,986
Fund Balance Beginning of Year	2,300,609	2,300,609	2,300,609	
Prior Year Encumbrances Appropriated	168,013	168,013	168,013	
Fund Balance End of Year	<u>\$2,025,854</u>	<u>\$2,185,409</u>	<u>\$2,233,395</u>	<u>\$47,986</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$34,341</u>
Liabilities:	
Due to Students	<u><u>\$34,341</u></u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Franklin Monroe Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 31 classified employees and 54 certificated full-time personnel, who provide services to 776 students and other community members.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading.

1. Primary Government

The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Franklin Monroe Local School District, this includes general operations, food service, and student related activities of the School District.

2. Component Units

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District are significant in amount to the School District. The School District has no component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 14 to the basic financial statements provides additional information for these entities.

These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Education Cooperative Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
Ohio School Insurance Plan

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-wide Financial Statement:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The government-wide financial statements distinguish between those activities that are governmental and those that are business-type. General governmental activities are financed through taxes, intergovernmental receipts, or other non-exchange transactions. The School District does not have any business-type activities.

The statement of net assets present the cash balances of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis or draws from the School District's general receipts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund The general fund accounts for all financial resources, except for restricted resources required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

Bond Retirement Fund The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

OSFC Locally Funded Initiative The OSFC Locally Funded Initiative Fund is used to account for the expenses associated with local portion of the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site.

Classroom Facilities State Share The classroom facilities fund is used to account for the expenses associated with state portion the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The School District's financial statements are prepared using the modified basis of cash accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred. The School District reports liabilities of the Fiduciary Agency fund since these monies are due to others and not for the purpose of the District itself. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less when purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments

Investments are reported as assets. Accordingly, purchases of investment are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of the sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2010, the School District invested in certificates of deposit, Citigroup, Inc., Federal Home Loan Bank Bonds, AIM Government & Agency Portfolio Mutual Fund, and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2010.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2010 was \$12,978, including \$10,018 assigned from other School District funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are not reflected as assets in the accompanying financial statements.

G. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified-cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the modified cash-basis of accounting. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transactions, neither and other financing source nor a capital outlay expenditure are recorded at inception. Lease payments are reported when paid.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District first applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets were not restricted by enabling legislation.

L. Fund Reserves

The School District reserves those portions of fund balance which are not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available. Fund balance reserves have been established for encumbrances.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures in the respective funds.

N. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the function level within the general fund and the fund level for all other funds as its legal level of control. Budgetary allocations at the object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

The School District follows the investment guidelines established by State statutes which require the classification of the monies held by the School District into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$4,223,752 and the bank balance was \$4,427,983. The entire bank balance was insured by federal depository insurance.

C. Investments

The School District's had the following investments at June 30, 2010:

Investments:	Average Maturity/ Maturity Date	Amount
Citigroup Inc.	4/30/2012	\$ 512,255
Federal Home Loan Bank Bonds Series WW-8011	1/28/2011	502,500
AIM Government & Agency Portfolio	44.27 days	1,559,296
STAR Ohio	56 days	8,240,175
		<u>\$10,814,226</u>

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District's investment policy does not further limit its investment choices. The School District's investment in STAR Ohio is rated AAAm by Standard & Poor's. The School District's investment in Citigroup Inc. and Federal Home Loan Bank Bonds are rated AAA by Standard & Poor's.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District has invested more than 5 percent in the following:

<u>Investments:</u>	<u>Percentage</u>
AIM Government & Agency Portfolio	14.42%
STAR Ohio	76.20%

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar year 2010 represent the collection of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied against local inter-change telephone companies in the prior calendar year on assessed values as of December 31, of that calendar year, at tax rates determined in the preceding year. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The percentages for telecommunications are 5 percent for 2010 and zero percent for 2011.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year proceeding the tax collection year, the lien date. Public utility property taxes are payable on the same date as real property taxes described previously.

The School District receives property taxes from Darke and Miami Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

4. PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$63,224,385	97.29	\$63,478,200	97.32
Public Utility Personal	1,763,830	2.71	1,746,860	2.68
Tangible Personal Property	980	0.00	540	0.00
Total	\$64,989,195	100.00	\$65,225,600	100.00
Tax rate per \$1,000 of assessed valuation	\$39.08		\$39.08	

An additional 2.58 mills is levied for the Miami Valley Career Technology Center.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,190 per year for 23 years.

5. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2010, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance.

Coverage provided is as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. RISK MANAGEMENT (Continued)

Building and Contents – replacement cost (\$1,000 deductible)	\$7,313,540
Personal Property – replacement cost (\$1,000 deductible)	2,101,421
Crime Insurance (\$100 deductible)	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	4,000,000
Products-Completed Operations Aggregate Limit	4,000,000
Personal and Advertising – Injury Limit	2,000,000
Each Occurrence	2,000,000
Damage to Premises Rented Limit – Any One Premises	100,000
Medical Expense – any one person/each accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Each Employee	2,000,000
Aggregate Limit	4,000,000
Employer’s Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Policy Damages	1,000,000
IEP Hearing Limit	50,000
Desegregation Limit	100,000
Breach of Contract Limit	100,000
Breach of Fiduciary Duty Limit	25,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

B. Workers’ Compensation

For fiscal year 2010, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the “equity pooling fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control and actuarial services to the GRP.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

6. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

For fiscal year 2010, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2010, the allocation to pension and death benefits is 12.78%. The remaining 1.22% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$132,883, \$74,882, and \$71,288, respectively; 56.32% has been contributed for fiscal year 2010 and 100% for fiscal years 2009 and 2008.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$375,486, \$373,338, and \$359,560, respectively; 83.25 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$8,111 made by the School District and \$5,793 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2010 was \$96.40 for most participants, but could be as high as \$353.60 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$7,902, \$6,178, and \$5,136 respectively; 56.32% has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2010, the health care allocation is .46%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for health care surcharge. For fiscal year 2010, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$17,911, \$50,528, and \$41,122 respectively; 56.32% has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at www.ohsers.org under employers/audit resources.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$28,884, \$28,718, and \$27,658, respectively; 83.25 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

9. DEBT

The changes in the School District’s long-term obligations during fiscal year 2010 were as follows:

	Amount Outstanding 6/30/2009	Additions	Deletions	Amount Outstanding 6/30/2010	Amount Due in One Year
Governmental Activities					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$1,515,000		(\$160,000)	\$1,355,000	\$160,000
Term Bonds 3.7%-4.75%	4,610,000			4,610,000	
Capital Appreciation Bonds 3.8%-3.9%	92,999			92,999	
Total Governmental Activities					
Long-Term Liabilities	<u>\$6,217,999</u>	<u>\$0</u>	<u>(\$160,000)</u>	<u>\$6,057,999</u>	<u>\$160,000</u>

2009 School Improvement General Obligation Bonds – In May 2009, the School District issued \$6,217,999 in voted general obligation bonds to refund general obligation notes. The School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,515,000, \$4,610,000, and \$92,999, respectively. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2021, 2023, 2026, 2029, and 2032 are subject to mandatory sinking fund redemption, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, in the years and respective principal amounts as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

9. DEBT (Continued)

<u>Year</u>	<u>Amounts</u>
2020	\$190,000
2022	205,000
2024	225,000
2025	230,000
2027	250,000
2028	265,000
2030	285,000
2031	300,000
2033	330,000
2034	345,000
2035	360,000

Unless previously redeemed, the remaining principal amount will mature at stated maturity.

The term bonds maturing on or after December 1, 2019, are subjected to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after June 1, 2019, at 100% of the face value plus accrued interest.

The capital appreciation bonds will mature in fiscal years 2016 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000 for both 2017 and 2018.

Prior to the issuance of the 2009 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 160,000	\$ 235,922
2012	160,000	232,722
2013	155,000	229,572
2014	170,000	226,322
2015	170,000	222,497
2016-2020	632,999	1,335,818
2021-2025	1,035,000	923,163
2026-2030	1,260,000	686,897
2031-2035	1,575,000	368,182
2036-2037	740,000	35,625
Total	<u>\$6,057,999</u>	<u>\$4,496,720</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

10. NOTES PAYABLE

The changes in the School District's notes payable during fiscal year 2010 were as follows:

	<u>Amount Outstanding 6/30/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2010</u>
Governmental Activities:				
School Improvement Note 2.75%	\$6,218,000	\$0	(\$6,218,000)	\$0

On January 27, 2009, the School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The notes carried a 2.75% interest rate and a final maturity date of July 24, 2009. The note was paid off with bond proceeds in July 2009.

11. INTERFUND BALANCES

At June 30, 2008, the Track Maintenance Fund, a non-major special revenue fund, had an unpaid interfund cash advance of \$8,000 to the General Fund. During fiscal year 2009, the Track Maintenance Fund repaid \$3,895. The outstanding balance at June 30, 2010 was \$4,105.

12. INTERFUND TRANSFERS

During fiscal year 2010, the School District transferred \$15,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program.

13. SET-ASIDE CALCULATIONS

State statute annually requires the School District set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	<u>Textbooks</u>	<u>Capital Acquisitions</u>
Set-aside Cash Balance as of June 30, 2009	(\$387,592)	(\$171,356)
Current Year Set-aside Requirement	120,241	120,241
Qualifying Disbursements	(142,138)	(99,674)
Offset - Proceeds from tax levy for classroom facilities maintenance		(44,883)
Offset - Proceeds from permanent improvement levy into permanent improvement fund		(29,270)
Offset - Proceeds from permanent improvement levy to pay debt		(421,926)
Total	<u>(\$409,489)</u>	<u>(\$702,218)</u>
Carry forward	<u>(\$409,489)</u>	<u>(\$547,194)</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. SET-ASIDE CALCULATIONS (Continued)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials set-aside and capital acquisitions amounts below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisitions set-aside, the negative amount can only be carried forward to the extent of proceeds from the tax levy that will be used to pay off the debt.

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Metropolitan Dayton Education Cooperative Association – The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, Greene and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$54,310 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2010 the School District paid \$792 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2010, the School District paid \$637 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Education Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an nine member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool. The School District purchases liability and property insurance coverage from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

15. CONTRACTUAL COMMITMENTS

At June 30, 2010, the School District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Outstanding at 6/30/10</u>
SHP Leading Design, architect services	\$ 383,689
Handicapped Tuition	49,000
Stan & Associates, commissioning services for new school	50,273
Handicapped Transportation	20,700
Key Blue Prints for printing services for OSFC	84,830
Gandee & Associates for hazardous materials consultations	19,705
D&M Excavating for early site work package	129,704
Middleton Geothermal for geothermal work package	54,113
Mays Consulting and Evaluation for roof consulting services	19,420
Professional Service for construction materials testing	61,816
Kahoe Air Balance Company	35,550
Debra Kuempel for plumbing and HVAC	2,570,000
Central Fire Protection Co. Inc.	371,970
Humble Construction Company	4,700,000
Koester Electrical Inc.	1,781,500

16. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2010.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

17. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and modified cash basis is outstanding fiscal year-end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

17. BUDGETARY BASIS OF ACCOUNTING (Continued)

<u>Net Change in Fund Balance</u>	
Modified Cash Basis	(\$ 11,796)
Adjustment for Encumbrances	<u>(223,431)</u>
Budget Basis	<u><u>(\$235,227)</u></u>

18. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2009, within the limitations of the School District's modified cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2009 are as follows:

- Net assets of governmental activities increased \$14,006,456 from fiscal year 2008.
- On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy.
- The School District issued general obligation notes in the amount of \$6,218,000 to cover the costs of the local share of school construction under the State of Ohio Classroom Facilities Assistance Program.
- At fiscal year end, the School District also had \$6,217,999 in bond proceeds on hand that was issued to pay off the general obligation notes that matured July 24, 2009.
- The School District's had \$6,995,842 in cash disbursements, up \$645,406 from fiscal year 2008. Contributing to the increase in expenses was issuance costs related to the issuance of debt and capital outlay expenditures associated with the school construction that was beginning toward the end of the fiscal year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2009, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Governmental Funds - Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, the Bond Retirement Fund, the OSFC Locally Funded Initiative Fund, and the Classroom Facilities State Share Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2009 compared to fiscal year 2008 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2009	2008
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,525,808	\$2,519,352
Net Assets		
Restricted for:		
Capital Projects	7,498,731	23,656
Debt Service	6,440,587	
Other Purposes	117,868	82,884
Bus Purchases	360	5,449
Unrestricted	2,468,262	2,407,363
Total Net Assets	\$16,525,808	\$2,519,352

As mentioned previously, net assets of governmental activities increased \$14,006,456 during fiscal year 2009. Debt proceeds to pay off the tax anticipation note and for the school construction contributed to this increase. The School District approved a 6.43 mill property tax levy that will be used to pay off the new bonds. Collections on this levy began in fiscal year 2009. In addition, the voters approved a .5 mill capital maintenance levy that collections began in fiscal year 2009.

Income tax collections were down 1.3 percent from fiscal year 2008. General interest revenue decreased \$67,323 or 59% percent as a result of a decrease in interest rates. The School District received more monies (\$5,683) for the purchase of school buses in fiscal year 2009. In addition, capital grants and contributions increased due to \$1,345,220 received in grants, Grants and entitlements not restricted to specific programs continues to increase, as monies and interest was received on the State of Ohio Classroom Facilities Assistance program. Instruction expenditures have increased due in part to a 3 percent increase in salaries, debt issuance costs and capital outlay expenditures associated with the commencement of the school construction project.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2009 and 2008.

**(Table 2)
Changes in Net Assets**

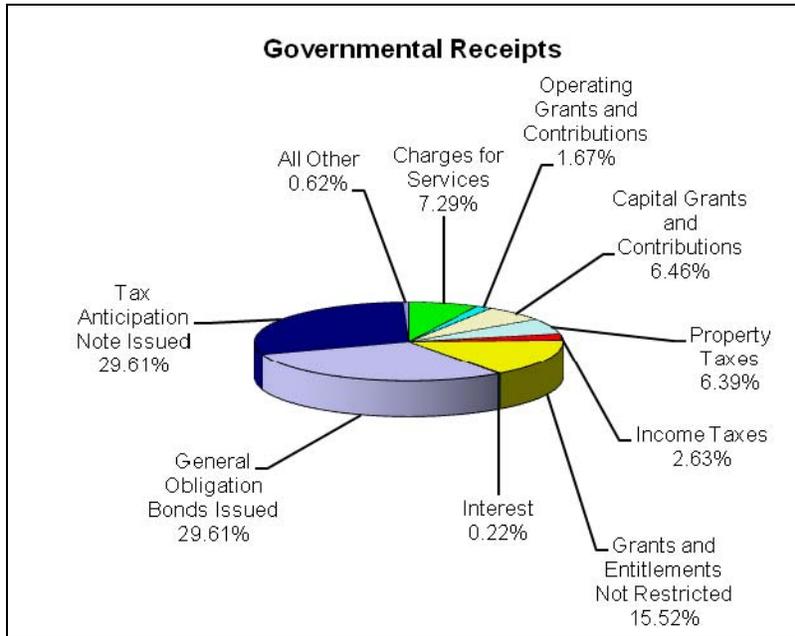
	Governmental Activities	
	2009	2008
Receipts:		
Program Receipts:		
Charges for Services	\$ 1,530,170	\$1,480,006
Operating Grants and Contributions	350,461	352,858
Capital Grants and Contributions	1,356,352	5,449
Total Program Receipts	<u>3,236,983</u>	<u>1,838,313</u>
General Receipts:		
Property Taxes	1,341,163	1,079,933
Income Taxes	552,445	559,606
Grants and Entitlements Not Restricted to Specific Programs	3,258,769	2,995,300
Interest	46,118	113,441
General Obligation Notes and Bonds Issued (including premiums)	12,558,533	
All Other Categories	8,287	27,687
Total General Receipts	<u>17,765,315</u>	<u>4,775,967</u>
Total Receipts	<u>21,002,298</u>	<u>6,614,280</u>
Disbursements:		
Instruction	3,667,150	3,548,441
Support Services:		
Pupils and Instructional Staff	786,846	702,919
Board of Education, Administration and Fiscal Operation and Maintenance of Plant	762,234	717,856
Pupil Transportation	491,502	473,214
Central	430,944	386,861
Operation of Non-Instructional Services	86,575	84,338
Extracurricular Activities	192,707	191,935
Capital Outlay	242,703	238,256
Debt Service	212,647	
Total Disbursements	<u>122,534</u>	<u>6,616</u>
Increase in Net Assets	<u>6,995,842</u>	<u>6,350,436</u>
Net Assets, Beginning of Year	14,006,456	263,844
Net Assets, Ending of Year	<u>2,519,352</u>	<u>2,255,508</u>
	<u>\$16,525,808</u>	<u>\$2,519,352</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

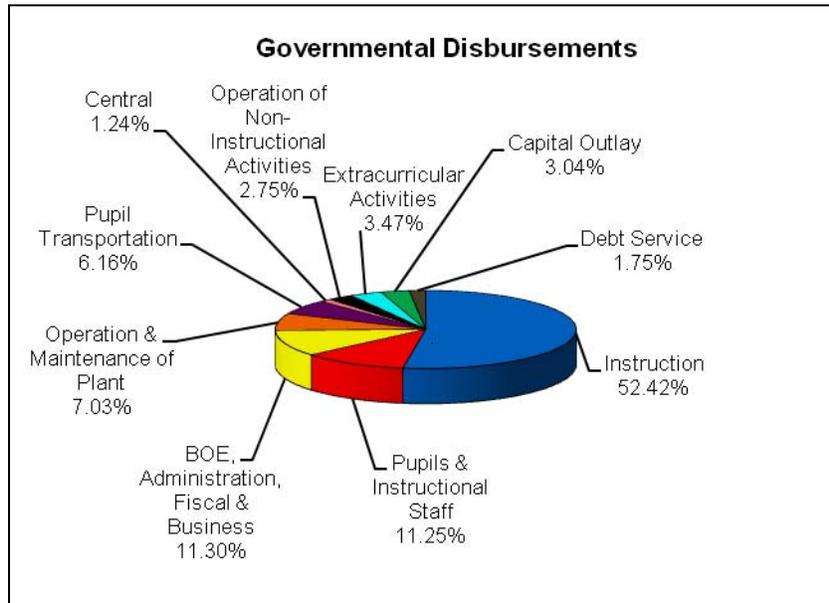
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. In 2008, property taxes made up 16.33% of receipts while income taxes add an additional 8.46% of receipts; these percentages are lower in fiscal year 2009 due to the debt issued. Grants and entitlements not restricted, typically the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 52.42% of the School District's disbursements. Support services make up 36.98% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 48, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers.

These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2009	Net Cost of Services 2009	Total Cost Of Services 2008	Net Cost of Services 2008
Instruction	\$3,667,150	(\$2,368,646)	\$3,548,441	(\$2,253,148)
Support Services:				
Pupils and Instructional Staff	786,846	(655,007)	702,919	(552,281)
Board of Education, Administration and Fiscal	762,234	(762,234)	717,856	(711,797)
Operation and Maintenance of Plant	491,502	(481,167)	473,214	(473,214)
Pupil Transportation	430,944	(324,086)	386,861	(318,373)
Central	86,575	(75,575)	84,338	(73,657)
Operation of Non-Instructional Services	192,707	(4,632)	191,935	(9,143)
Extracurricular Activities	242,703	(97,551)	238,256	(113,894)
Capital Outlay	212,647	1,132,573	6,616	(6,616)
Debt Service	122,534	(122,534)		
Total Expenses	\$6,995,842	(\$3,758,859)	\$6,350,436	(\$4,512,123)

The dependence upon state foundation, property and income tax receipts is critical as a large portion of governmental activities are supported through these general receipts. For fiscal year 2009, program revenues covered capital outlay expenditures. As the school construction project continues, this will reverse and the School District will have to cover its local portion from general receipts (property taxes).

The School District's Funds

Total governmental funds had receipts of \$8,412,654 and disbursements of \$6,987,666.

The fund balance of the General Fund increased \$55,810. Increased costs for salaries and benefits were offset by increased intergovernmental revenues. In addition, the General Fund transferred \$15,000 to the EMIS special revenue fund during fiscal year 2009.

The Bond Retirement Fund was established in fiscal year 2009 as a major fund. This fund's net assets increased due to property taxes being collected and general obligation bonds being issued. In July 2009, the bond proceeds were used to pay off the School District's general obligation notes.

The OSFC Locally Funded Initiative fund was established in fiscal year 2009 as a major fund. This fund's net assets increased as the result of note proceeds that will be used for the school construction.

Finally, the Classroom Facilities State Share fund was established in fiscal year 2009 as a major fund. Like the OSFC Locally Funded Initiative Fund, net assets increased due to note proceeds that will be used for the school construction.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2009, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. Increases in estimated receipts for income taxes and school foundation contributed to the increase in final budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$6,376,662 while actual disbursements were \$6,313,934. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The net change in fund balance showed a \$112,203 decrease for fiscal year 2009.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently keep track of its capital assets and infrastructure.

Debt

At June 30, 2008, the School District did not have any outstanding debt. At June 30, 2009, the School District had \$6,217,999 in general obligation bonds outstanding and \$6,218,000 in general obligation notes outstanding. The bond proceeds were used to pay off the note which matured July 24, 2009. The notes were issued to fund the costs of the \$4,218,195, the local share of school construction under the State of Ohio Classroom Facilities Assistance Program along with \$2,000,000 for the (LFI) Locally Funded Initiative Portion of the Project. See notes 9 and 10 for further information.

Current Issues

The challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases, shrinking funding. We rely heavily on local taxes and state funding.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,217,999, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,180 per year for 23 years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Debra VanCulin, Treasurer at P.O. Box 78, Pittsburg, OH 45358.

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FRANKLIN MONORE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$16,525,808</u>
Net Assets:	
Restricted for:	
Capital Projects	\$7,498,731
Debt Service	6,440,587
Other Purposes	117,868
School Bus Purchases	360
Unrestricted	<u>2,468,262</u>
Total Net Assets	<u><u>\$16,525,808</u></u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$2,757,809	\$1,025,611	\$93,741		(\$1,638,457)
Special	654,334	124,441	31,523		(498,370)
Vocational	177,999		23,188		(154,811)
Student Intervention Services	59,878				(59,878)
Other	17,130				(17,130)
Support Services:					
Pupil	333,313	8,118	102,222		(222,973)
Instructional Staff	453,533		21,499		(432,034)
Board of Education	29,593				(29,593)
Administration	538,579				(538,579)
Fiscal	194,062				(194,062)
Operation and Maintenance of Plant	491,502	10,335			(481,167)
Pupil Transportation	430,944	95,726		\$11,132	(324,086)
Central	86,575		11,000		(75,575)
Operation of Non-Instructional Services	192,707	131,221	56,854		(4,632)
Extracurricular Activities	242,703	134,718	10,434		(97,551)
Capital Outlay	212,647			1,345,220	1,132,573
Debt Service:					
Issuance Costs	122,534				(122,534)
Total Governmental Activities	<u>\$6,995,842</u>	<u>\$1,530,170</u>	<u>\$350,461</u>	<u>\$1,356,352</u>	<u>(3,758,859)</u>

General Receipts:

Property Taxes Levied for:

General Purposes	1,103,860
Capital Outlay	24,225
Debt Service	198,929
Capital Maintenance	14,149
Income Taxes Levied for General Purposes	552,445
Grants and Entitlements not Restricted to Specific Programs	3,258,769
Gifts and Donations not Restricted to Specific Programs	400
Interest	46,118
Miscellaneous	7,887
General Obligation Bonds Issued	6,217,999
General Obligation Note Issued	6,218,000
Premium on Bonds and Notes Issued	122,534
Total General Receipts	<u>17,765,315</u>
 Change in Net Assets	 14,006,456
 Net Assets Beginning of Year	 <u>2,519,352</u>
 Net Assets End of Year	 <u>\$16,525,808</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Bond Retirement	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$2,468,262	\$6,440,587	\$2,002,748	\$5,476,152	\$137,699	\$16,525,448
Restricted Asset:						
Equity in Pooled Cash and Cash Equivalents	360					360
Total Assets	<u>2,468,622</u>	<u>6,440,587</u>	<u>2,002,748</u>	<u>5,476,152</u>	<u>137,699</u>	<u>16,525,808</u>
Liabilities						
Fund Balances:						
Reserved for Encumbrances	168,013			90,089	11,963	270,065
Reserved for School Bus Purchases	360					360
Unreserved, Undesignated Reported in:						
General Fund	2,300,249					2,300,249
Special Revenue Funds					105,905	105,905
Debt Service Fund		6,440,587				6,440,587
Capital Projects Funds			2,002,748	5,386,063	19,831	7,408,642
Total Fund Balances	<u>\$2,468,622</u>	<u>\$6,440,587</u>	<u>\$2,002,748</u>	<u>\$5,476,152</u>	<u>\$137,699</u>	<u>\$16,525,808</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General	Bond Retirement	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Receipts:						
Property Taxes	\$1,103,860	\$198,929			\$38,374	\$1,341,163
Income Tax	552,445					552,445
Intergovernmental	3,259,608	27,777		1,331,994	302,978	4,922,357
Interest	42,782	383	2,943	6,610	355	53,073
Tuition and Fees	1,190,510					1,190,510
Extracurricular Activities	38,471				151,747	190,218
Charges for Services	270				131,160	131,430
Miscellaneous	1,804				29,654	31,458
Total Receipts	6,189,750	227,089	2,943	1,338,604	654,268	8,412,654
Disbursements:						
Current:						
Instruction:						
Regular	2,621,723				127,910	2,749,633
Special	638,967				15,367	654,334
Vocational	177,999					177,999
Student Intervention Services	59,878					59,878
Other	17,130					17,130
Support Services:						
Pupil	221,774				111,539	333,313
Instructional Staff	431,866				21,667	453,533
Board of Education	29,593					29,593
Administration	538,579					538,579
Fiscal	187,282	4,501			2,279	194,062
Operation and Maintenance of Plant	459,045				32,457	491,502
Pupil Transportation	430,944					430,944
Central	62,542				24,033	86,575
Operation of Non-Instructional Services					192,707	192,707
Extracurricular Activities	136,599				106,104	242,703
Capital Outlay	132,000			80,647		212,647
Debt Service						
Issuance Costs		122,534				122,534
Total Disbursements	6,145,921	127,035		80,647	634,063	6,987,666
Excess of Receipts Over (Under) Disbursements	43,829	100,054	2,943	1,257,957	20,205	1,424,988
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	31,111					31,111
Refund of Prior Year Receipts	(8,176)					(8,176)
General Obligation Bonds Issued		6,217,999				6,217,999
General Obligation Notes Issued			1,999,805	4,218,195		6,218,000
Permium on Bonds and Notes Issued		122,534				122,534
Transfers In					28,609	28,609
Advances In	12,046				8,000	20,046
Advances Out	(8,000)				(12,046)	(20,046)
Transfers Out	(15,000)				(13,609)	(28,609)
Total Other Financing Sources (Uses)	11,981	6,340,533	1,999,805	4,218,195	10,954	12,581,468
Net Change in Fund Balances	55,810	6,440,587	2,002,748	5,476,152	31,159	14,006,456
Fund Balances Beginning of Year	2,412,812				106,540	2,519,352
Fund Balances End of Year	\$2,468,622	\$6,440,587	\$2,002,748	\$5,476,152	\$137,699	\$16,525,808

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Receipts:				
Property Taxes	\$1,061,500	\$1,103,750	\$1,103,860	\$110
Income Tax	520,000	552,000	552,445	445
Intergovernmental	3,057,898	3,257,443	3,259,608	2,165
Interest	60,000	42,500	42,782	282
Tuition and Fees	1,243,700	1,190,420	1,190,510	90
Extracurricular Activities	32,000	38,400	38,471	71
Miscellaneous	1,300	1,950	2,074	124
Total Receipts	<u>5,976,398</u>	<u>6,186,463</u>	<u>6,189,750</u>	<u>3,287</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,733,617	2,644,017	2,638,945	5,072
Special	628,699	693,699	689,662	4,037
Vocational	187,332	187,332	179,551	7,781
Student Intervention Services	58,999	73,999	59,878	14,121
Other	6,810	6,810	17,705	(10,895)
Support Services:				
Pupil	201,006	240,006	239,694	312
Instructional Staff	425,543	437,643	437,189	454
Board of Education	39,789	36,789	32,571	4,218
Administration	558,178	548,178	544,960	3,218
Fiscal	196,549	196,549	190,076	6,473
Operation and Maintenance of Plant	525,776	505,776	496,411	9,365
Pupil Transportation	534,368	464,368	455,126	9,242
Central	69,308	64,308	63,567	741
Extracurricular Activities	141,499	142,924	136,599	6,325
Capital Outlay	190,264	134,264	132,000	2,264
Total Disbursements	<u>6,497,737</u>	<u>6,376,662</u>	<u>6,313,934</u>	<u>62,728</u>
Excess of Receipts Over (Under) Disbursements	<u>(521,339)</u>	<u>(190,199)</u>	<u>(124,184)</u>	<u>66,015</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	20,000	31,095	31,111	16
Refund of Prior Year Receipts	(4,000)	(9,000)	(8,176)	824
Advances In	8,000	12,000	12,046	46
Advances Out	(8,000)	(10,000)	(8,000)	2,000
Transfers Out	(16,640)	(16,640)	(15,000)	1,640
Total Other Financing Sources (Uses)	<u>(640)</u>	<u>7,455</u>	<u>11,981</u>	<u>4,526</u>
Net Change in Fund Balance	(521,979)	(182,744)	(112,203)	70,541
Fund Balance Beginning of Year	2,245,751	2,245,751	2,245,751	
Prior Year Encumbrances Appropriated	<u>167,061</u>	<u>167,061</u>	<u>167,061</u>	
Fund Balance End of Year	<u>\$1,890,833</u>	<u>\$2,230,068</u>	<u>\$2,300,609</u>	<u>\$70,541</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Franklin Monroe Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 30 classified employees and 54 certificated full-time personnel, who provide services to 792 students and other community members.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading.

1. Primary Government

The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Franklin Monroe Local School District, this includes general operations, food service, and student related activities of the School District.

2. Component Units

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District are significant in amount to the School District. The School District has no component units.

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 14 to the basic financial statements provides additional information for these entities.

These organizations are:

Jointly Governed Organizations:

Metropolitan Dayton Education Cooperative Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
Ohio School Insurance Plan

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-wide Financial Statement:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The government-wide financial statements distinguish between those activities that are governmental and those that are business-type. General governmental activities are financed through taxes, intergovernmental receipts, or other non-exchange transactions. The School District does not have any business-type activities.

The statement of net assets present the cash balances of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis or draws from the School District's general receipts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The general fund accounts for all financial resources, except for restricted resources required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

Bond Retirement Fund - The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term principal, interest and related costs.

OSFC Locally Funded Initiative - The OSFC Locally Funded Initiative Fund is used to account for the expenses associated with local portion of the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site.

Classroom Facilities State Share - The classroom facilities fund is used to account for the expenses associated with state portion the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

C. Basis of Accounting

The School District's financial statements are prepared using the modified basis of cash accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred. The School District reports liabilities of the Fiduciary Agency fund since these monies are due to others and not for the purpose of the District itself. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less when purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments

Investments are reported as assets. Accordingly, purchases of investment are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of the sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2009, the School District invested in certificates of deposit, Citigroup, Inc., Federal National Mortgage Association Medium Term Bonds, Federal Home Loan Bank Bonds and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2009. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2009.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2009 was \$42,782, including \$17,551 assigned from other School District funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the purchase of buses.

F. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are not reflected as assets in the accompanying financial statements.

H. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified-cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the modified cash-basis of accounting. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transactions, neither and other financing source nor a capital outlay expenditure are recorded at inception. Lease payments are reported when paid.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District first applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets were not restricted by enabling legislation.

M. Fund Reserves

The School District reserves those portions of fund balance which are not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available. Fund balance reserves have been established for encumbrances and school bus purchases.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures in the respective funds.

O. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the function level within the general fund and the fund level for all other funds as its legal level of control. Budgetary allocations at the object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

The School District follows the investment guidelines established by State statutes which require the classification of the monies held by the School District into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$3,373,730 and the bank balance was \$3,499,603. The entire bank balance was insured by federal depository insurance.

C. Investments

The School District's had the following investments at June 30, 2009:

<u>Investments:</u>	<u>Average Maturity/ Maturity Date</u>	<u>Amount</u>
Citigroup Inc.	6/30/2012	\$ 502,195
Federal National Mortgage Association Medium Term Notes	9/23/2011	504,220
Federal Home Loan Bank Bonds Series WW-8011	1/28/2011	502,190
AIM Government & Agency Portfolio	45.09 days	7,759,640
STAR Ohio	58.1 days	3,911,853
		<u>\$13,180,098</u>

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District's investment policy does not further limit its investment choices. The School District's investment in STAR Ohio is rated AAAM by Standard & Poor's. The School District's investment in Citigroup Inc., Federal National Mortgage Association Notes, and Federal Home Loan Bank Bonds all are rated AAA by Standard & Poor's.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District has invested more than 5 percent in the following:

<u>Investments</u>	<u>Percentage</u>
AIM Government & Agency Portfolio	58.87%
STAR Ohio	29.68%

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School District in the second half of the fiscal year. Second-half tax distributions are received in the first half of the following fiscal year.

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax receipts received in calendar year 2009 represent the collection of calendar year 2008 taxes. Real property taxes received in calendar year 2009 were levied after April 1, 2008, on the assessed values as of January 1, 2008, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar year 2008 represent the collection of calendar year 2008 taxes. Public utility real and tangible personal property taxes received in calendar year 2009 became a lien on December 31, 2007, were levied after April 1, 2008, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

4. PROPERTY TAXES (Continued)

Tangible personal property tax receipts received in calendar year 2009 (other than public utility property) represent the collection of calendar year 2009 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2009 were levied on October 1, 2008, on the value as of December 31, 2008. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Darke and Miami Counties. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2009, are available to finance fiscal year 2009 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2009 taxes were collected are:

	2008 Second- Half Collections		2009 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$57,323,940	96.10%	\$63,224,385	97.29%
Public Utility Personal	1,722,420	2.89	1,763,830	2.71
Tangible Personal Property	600,890	1.01	980	0.00
Total	\$59,647,250	100.00%	\$64,989,195	100.00%

An additional 2.58 mills is levied for the Miami Valley Career Technology Center.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,180 per year for 23 years.

5. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2009, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance.

Coverage provided is as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$7,313,540
Personal Property – replacement cost (\$1,000 deductible)	2,101,421
Crime Insurance (\$100 deductible)	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	4,000,000
Products-Completed Operations Aggregate Limit	4,000,000
Personal and Advertising – Injury Limit	2,000,000
Each Occurrence	2,000,000
Damage to Premises Rented Limit – Any One Premises	100,000
Medical Expense – any one person/each accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Each Employee	2,000,000
Aggregate Limit	4,000,000
Employer’s Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from the prior year.

B. Workers’ Compensation

For fiscal year 2009, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the “equity pooling fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control and actuarial services to the GRP.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

6. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

For fiscal year 2009, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2009, the allocation to pension and death benefits is 9.09 percent of annual covered salary. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$74,882, \$71,288, and \$76,401 respectively; 50.57 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2009, 2008, and 2007 were \$373,338, \$359,560, and \$349,769, respectively; 83.25 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007. Contributions to the DC and Combined Plans for fiscal year 2009 were \$1,110 made by the School District and \$5,356 made by the plan members.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40, SERS' reimbursement to retirees was \$45.50.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2009, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2009, 2008, and 2007 were \$6,178, \$5,136, and \$4,721 respectively; 50.57 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

Health Care Plan – ORC 3309.375 and 2209.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for health care surcharge. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$50,528, \$41,122, and \$38,082 respectively; 65.70 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at www.ohsers.org under employers/audit resources.

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2009, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were \$28,718, \$27,658, and \$26,905, respectively; 83.25 percent has been contributed for fiscal year 2009 and 100 percent for fiscal years 2008 and 2007.

9. DEBT

The changes in the School District's long-term obligations during fiscal year 2009 were as follows:

	<u>Amount Outstanding 6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2009</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%		\$1,515,000		\$1,515,000	\$160,000
Term Bonds 3.7%-4.75%		4,610,000		4,610,000	
Capital Appreciation Bonds 3.8%-3.9%		92,999		92,999	
Total Governmental Activities					
Long-Term Liabilities	\$0	\$6,217,999	\$0	\$6,217,999	\$160,000

2009 School Improvement General Obligation Bonds – In May 2009, the School District issued \$6,217,999 in voted general obligation bonds to refund general obligation notes. The School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,515,000, \$4,610,000, and \$92,999, respectively. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2021, 2023, 2026, 2029, and 2032 are subject to mandatory sinking fund redemption, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amounts</u>
2020	\$190,000
2022	205,000
2024	225,000
2025	230,000
2027	250,000
2028	265,000
2030	285,000
2031	300,000
2033	330,000
2034	345,000
2035	360,000

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

9. DEBT (Continued)

Unless previously redeemed, the remaining principal amount will mature at stated maturity.

The term bonds maturing on or after December 1, 2019, are subjected to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after June 1, 2019, at 100% of the face value plus accrued interest.

The capital appreciation bonds will mature in fiscal years 2016 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000 for both 2017 and 2018.

Prior to the issuance of the 2009 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

Fiscal Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2010	\$ 160,000	\$ 242,466
2011	160,000	235,922
2012	160,000	232,722
2013	155,000	229,572
2014	170,000	226,322
2015-2019	617,999	1,351,572
2020-2024	995,000	961,844
2025-2029	1,210,000	740,071
2030-2034	1,505,000	439,726
2035-2037	1,085,000	78,969
Total	\$6,217,999	\$4,739,186

Note 10 – Notes Payable

The changes in the School District's notes payable during fiscal year 2009 were as follows:

	Amount Outstanding 6/30/2008	Additions	Deletions	Amount Outstanding 6/30/2009
Governmental Activities				
School Improvement Note 2.75%	\$0	\$6,218,000	\$0	\$6,218,000

On January 27, 2009, the School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The notes carried a 2.75% interest rate and a final maturity date of July 24, 2009. The note was paid off with bond proceeds in July 2009.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

11 - INTERFUND BALANCES

At June 30, 2008, the Track Maintenance Fund, a non-major special revenue fund, had an unpaid interfund cash advance of \$8,000 to the General Fund. During fiscal year 2009, the Track Maintenance Fund repaid \$3,895, leaving an outstanding balance of \$4,105 at June 30, 2009.

In addition, during fiscal year 2009, the Title II-D, a non-major special revenue fund returned an advance in the amount \$151 to the General Fund which was advanced in fiscal year 2008.

Finally during fiscal year 2009, the General Fund advanced \$8,000 to the Improving Teacher Quality Fund, a non-major special revenue fund. This advance was returned during the fiscal year.

The interfund transactions between general and non-major special revenue funds are due to the timing of the receipt of grants.

12. INTERFUND TRANSFERS

During fiscal year 2009, the School District transferred \$15,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program.

13. SET-ASIDE CALCULATIONS

State statute annually requires the School District set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. Amounts not spent by fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Textbooks	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2008	(\$355,796)	
Current Year Set-aside Requirement	115,583	\$115,583
Qualifying Disbursements	(147,379)	(120,314)
Offset - Proceeds from tax levy for classroom facilities maintenance		(31,014)
Offset - Proceeds from permanent improvement levy into permanent improvement fund		(29,219)
Offset - Proceeds from permanent improvement levy to pay debt		(226,706)
Total	(\$387,592)	(\$291,670)
Carry forward	(\$387,592)	(\$171,356)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials set-aside and capital acquisitions amounts below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisitions set-aside, the negative amount can only be carried forward to the extent of proceeds from the tax levy that will be used to pay off the debt.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Metropolitan Dayton Education Cooperative Association – The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, Greene and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$37,580 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2009, the School District paid \$1,399 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2009, the School District paid \$3,183 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Education Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a nine member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool. The School District purchases liability and property insurance coverage from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

15. CONTRACTUAL COMMITMENTS

At June 30, 2009, the School District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Outstanding at 6/30/09</u>
Darke County ESC for Preschool Excess Costs	\$7,500
Handicapped Transportation	14,406
Handicapped Tuition	41,600
Stan & Associates, commissioning services for new school	66,464
Loopmaster International, Inc. for geothermal test well drilling	10,500
Gary Wagner for technical services	11,980
Professional Service for the subsurface investigation	10,125
US Bank for maintenance agreement	7,733

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Continued)**

16. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2009.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

17. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and modified cash basis is outstanding fiscal year-end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
Modified Cash Basis	\$ 55,810
Adjustment for Encumbrances	<u>(168,013)</u>
Budget Basis	<u><u>(\$112,203)</u></u>

18. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

19. SUBSEQUENT EVENT

In July 2009, the School District used the bond proceeds received in fiscal year 2009 to pay off its outstanding note in the amount of \$6,218,000.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Franklin Monroe Local School District
Darke County
8369 Oakes Rd.
PO Box 78
Pitsburg, Ohio 45358

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Monroe Local School District, Darke County, (the District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 29, 2010, wherein we noted the District uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated October 29, 2010.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, audit committee, and the Board of Education, and others within the District. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 29, 2010

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2010-001

Material Noncompliance

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03 (B) requires School Districts to prepare their annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Franklin Monroe Local School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School District should prepare its annual financial reports in accordance with generally accepted accounting principles.

Officials' Response:

Due to the cost of a GAAP conversion, along with the cost associated with auditing the GAAP financial report, the Franklin Monroe Local Board of Education has chosen to prepare their financial statements using another comprehensive basis of accounting (OCBOA).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	ORC Section 117.38/ OAC Section 117-2-03 (B) regarding filing GAAP financial statements.	No	Not Corrected; Repeated as Finding Number 2010-001.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Franklin Monroe Local School District
Darke County
8369 Oakes Rd.
PO Box 78
Pitsburg, Ohio 45358

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Franklin Monroe Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on November 19, 2007.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
 - (3) A procedure for reporting prohibited incidents;
 - (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

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- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 29, 2010

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Mary Taylor, CPA
Auditor of State

FRANKLIN MONROE LOCAL SCHOOL DISTRICT

DARKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 7, 2010**